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THE DIRECTOR OF CENTRAL INTELLIGENCE

WASHINGTON, D.C. 20505

National Intelligence Council

NIC #9762-82
2 December 1982

MEMORANDUM FOR THE RECORD

SUBJECT: PFIAB Discussions on International Finance

1. On 29 November, I met with Leo Cherne, Alan Greenspan, Warren Meeker, and two PFIAB staffers for about an hour and a half to discuss international finance issues. Mr. Cherne referred to his favorable reaction to the draft NIC memorandum on the Implications of LDC Debt, which was sent to him for comments by the DCI, and his strong belief that follow-up action should be taken to provide warning of possible financial crises.
2. I responded that CIA was making a major effort on financial warning, involving collectors, the DDI, and the NIC, and that international finance had become one of the core economic issues on which CIA would be focused, much as energy had become in 1973. In performing the warning function, I distinguished between continuous monitoring, including use of key warning indicators, which was being done mainly by OGI, and the process of identifying and analyzing less likely future developments that could have serious consequences. NIOs are in a good position to perform the latter function, and have in fact been trying to do so. I indicated, and Cherne, Greenspan, and Meeker agreed, that this should be done in economic area on a more regular and systematic basis.
3. There was also considerable discussion of the use of outside contacts and contractors. Mr. Cherne offered his assistance in identifying individuals who could be especially helpful in the warning process.
4. No problems were raised during the meeting; there appeared to be a general agreement on what needed to be done, and support of the approach the DDI and the NIC were taking.

[Redacted Signature]

Maurice C. Ernst

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30 November 1982

MEMORANDUM FOR THE RECORD

SUBJECT: PFIAB Session on International Finance

1. On 29 November [redacted] participated in a PFIAB hearing on the issue of intelligence work on international financial problems. Leo Cherne chaired the PFIAB. Alan Greenspan and Warren Meeker also participated. Two PFIAB staffers attended the session.

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2. Mr. Cherne opened the session indicating that he is deeply concerned about the international financial crisis and is in the process of assessing the appropriate role of intelligence in supporting the US policy community on this matter. His opening remarks included a comment that he has received very positive consumer feedback on the work done by the Agency on this issue in the past three months. [redacted]

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3. Most of the session involved back and forth discussion of our views of the financial problem, its severity and likely direction it will take. We all agreed it was a serious problem which is likely to remain a key policy issue for at least several years. We also agreed that it could impact significantly on US economic recovery. Mr. Cherne strongly believes that a serious risk of international financial crises exists; Dr. Greenspan was more confident that the worst downside risks could be avoided but agreed that the outlook is ominous. We did not disagree with any of these observations.

4. On intelligence issues we discussed a variety of matters.

- o The extent of DDI coverage of the finance issue was discussed at length; we pointed out that our capabilities in this area had run down during the latter half of the 1970s and that we have spent the past nine months building up.

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- o The difficulty in hiring first-rate people with experience in international finance was discussed; we also focused on the question of private sector support, pointing out that we aggressively seek this kind of help but that it is still hard to get because of banker secrecy.
- o We discussed at length the problem in getting good reporting out of certain embassies and the constraints imposed on collectors by entrenched Treasury attaches who are in a position to stone-wall more aggressive DO collection.
- o Mr. Cherne raised the issue of the Agency's analytic effort on the [] crisis, asking for our views on how we thought the Agency performed. Leo pointed out that he is especially concerned about the potential political fallout from [] efforts to deal with its economic crisis.
- o Some discussion was devoted to the general problem of knowing when a second tier country--Bolivia, for example--would find itself in a crisis situation, one which would spill over to the banking system at large.

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5. Mr. Cherne summed up his views in the following way.

- o The Agency is fully sensitive to the nature and extent of the international financial problem and its potential implications.
- o During the past six months or so it has worked hard to beef up its effort, adding people, management clout, and the resources to the program at a rapid pace.
- o The catching up process is moving ahead quickly, but maybe not fast enough to keep pace with the rapidly deteriorating international financial situation.

6. We disagreed with the last point--it was our stated view that we have much to do but that we are making important progress. At this point Leo was given a memorandum mapping out our analytic program and the direction we intend to go. I believe Leo accepted our view of the progress we are making.

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7. At the conclusion of the session Leo requested that we prepare a short paper laying out the following issues.

- o Our view of the international financial problem.
- o What we think CIA's role should be.
- o What we need to do the job.
- o What will the CIA not do.

We agreed to provide this within the next few weeks. Leo should have it as an input to an interim report he intends to complete by around the first of the year.

8. Immediately following the session the same PFIAB team met with the NIO/Economics.

cc: DCI
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ExDir
DDI
ADDI
NIO/Econ

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